

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
June 20, 2003
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Dr. Chuck Essigs, Acting Chairman, Arizona State Retirement System Board, called the meeting to order at 8:31 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 E. Broadway, Tucson, Arizona 85710.

1. Call to Order; Roll Call, Opening Remarks

Present: Dr. Chuck Essigs, Acting Chairman
Ms. Charlotte Borchert
Dr. Keith Meredith
Mr. Carl Tenney
Mr. Steven Zeman

Excused: Mr. Karl Polen
Mr. Norman Miller
Mr. Jim Bruner
Mr. Lawrence Trachtenberg

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the May 16, 2003, Regular Meeting of the ASRS Board

Motion: Ms. Charlotte Borchert moved to approve the minutes of the May 16, 2003 regular meeting of the ASRS Board.

Mr. Carl Tenney seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 4 excused, the motion was approved.

3. Approval of Consent Schedule

Motion: Mr. Carl Tenney moved to approve the refunds, death benefits, retirements, system transfers, and the applications and agreements with:

- Pinetop Volunteer Fire District
- Ideabanc, Inc dba AmeriSchools
- Carpe Diem Collegiate High School
- Sierra Oaks School, Inc.
- Wilson High School
- Arizona Community Development Corp., dba La Paloma Academy
- Mountaineer Academy, LLC
- Pathfinder Academy, LLC
- Sequoia Ranch School, LLC
- Sequoia School for the Deaf and Hard of Hearing, LLC
- Redwood Elementary Academy, LLC

and adopt the new mortality table.

Ms. Charlotte Borchert seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 4 excused, the motion was approved.

4. Presentation, Discussion and Appropriate Action Regarding Consideration of the Application for the Maricopa Association of Governments (MAG) to be an Employer Member of the ASRS

Mr. Tom McClory, Assistant Attorney General, attended a meeting with representatives from the Arizona Attorney General's Office to address the question of whether MAG qualifies as a state or political sub-division of the State of Arizona. Mr. McClory stated that it is his opinion that MAG is not. He further stated that A.R.S. § 38-711 defines an employer as the state or political sub-division of the State. Political sub-divisions are labeled as cities, towns, or improvement districts. Additionally, there are cases that state in order to be considered to be a political sub-division, the entity must be labeled as such even if the entity has statutory basis.

Mr. Dennis Smith, Executive Director, MAG, explained that MAG is not like other councils of government in the state. MAG is unique because for almost 20 years the majority of MAG's employees were staffed at the Arizona Department of Transportation (ADOT) and worked on the freeway planning for the Valley. In 1990 or 1991, these employees were moved and became employed for ADOT. MAG has several employees who have several years with State service. Everything that MAG does is government related.

Ms. Charlotte Borchert stated that she would like to be able to vote yes and allow MAG to become an employer member of the ASRS. She believes that perhaps the Board should wait for a formal opinion from the Attorney General's office.

Motion: Mr. Carl Tenney moved the Board convene to Executive Session to discuss this issue further with Mr. McClory.

Mr. Steven Zeman seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 4 excused, the motion was approved.

The Board reconvened to Regular Session at 9:05 a.m.

Motion: Mr. Carl Tenney moved that the ASRS Board direct Mr. Paul Matson, Director, to seek a formal opinion from the Attorney General as to the availability of membership in this organization by MAG.

Dr. Keith Meredith seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 4 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding the Legislative Update

Mr. Richard Stephenson, Deputy Director, External Affairs, stated that there was not much to report at this time. The Legislature has supported the ASRS on all of the ASRS' positions and issues, including the Board's opposition to the terrorist bills.

We have received the Budget and are currently in the process of analyzing this information.

Dr. Chuck Essigs stated that the ASRS was very successful during this Legislative session. Dr. Essigs commended Mr. Stephenson and his staff for the good work that was done during this time.

6. Presentation, Discussion and Appropriate Action Regarding Approval of the Internal Audit Plan

Motion: Mr. Carl Tenney moved to approve the internal audit plan schedule for fiscal years 2004/2005.

Ms. Charlotte Borchert seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 4 excused, the motion was approved.

7. Presentation, Discussion and Appropriate Action Regarding the Contract Extension with Tier Technologies for Project Direction and PERIS Development

Motion: Mr. Carl Tenney moved to approve the contract extension with Tier Technologies for project direction for a one-year period from July 1, 2003 to June 30, 2004, with no hourly increases.

Dr. Keith Meredith seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 4 excused, the motion was approved.

8. Presentation, Discussion and Appropriate Action Regarding Contract Approval for the Member Dental and Health Insurance Contract

Dr. Chuck Essigs stated the Health Insurance & Long Term Disability (LTD) Committee has met to come up with long-term solutions that would allow for affordable and accessible health insurance to the retired members. Dr. Essigs believes this committee is making great progress.

Motion: Dr. Essigs moved to approve the continuation of the contractual relationship with PacifiCare for retiree healthcare for calendar year 2004.

Dr. Keith Meredith seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 4 excused, the motion was approved.

Motion: Ms. Charlotte Borchert moved to approve the proposal submitted by Fortis Benefits for retiree dental care for calendar year 2004.

Dr. Keith Meredith seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 4 excused, the motion was approved.

9. Presentation, Discussion and Appropriate Action Regarding Contract Approval for Long Term Disability Contract

Motion: Ms. Borchert moved to approve the contract extension with VPA, Inc. for LTD administration for a one-year period from August 1, 2003 to July 31, 2004.

Mr. Steven Zeman seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 4 excused, the motion was approved.

10. Presentation, Discussion and Appropriate Action Regarding the Delegation of Authority for Health Insurance Procurement

Dr. Essigs explained that this issue was discussed with the Health Insurance & LTD Committee. The Arizona Department of Administration (ADOA), Procurement Office, has processed the Request for Proposals (RFP) for health insurance in the past. ADOA has agreed to delegate the authority of this procurement process to ASRS staff contingent on Board approval. This will allow the ASRS staff to focus on this intensive process.

Motion: Ms. Borchert moved to approve and direct the ASRS staff to request authority from the State Procurement Office to procure retiree health insurance and to administer health insurance contracts.

Dr. Keith Meredith seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 4 excused, the motion was approved.

11. Presentation, Discussion and Appropriate Action Regarding the Extension of BGI Contract for Domestic Tactical Asset Allocation (TAA)

Mr. Gary Dokes, Acting Chief Investment Officer, stated that recently the Investment Review Committee (IRC) determined that it is necessary to broaden the Tactical Asset Allocation (TAA) mandate to a global TAA. This is more consistent with the total fund asset allocation which includes an exposure to international markets. The IRC intends to make a formal recommendation to the Board regarding this mandate over the next couple of months concurrent with their recommendation for the new ASRS asset allocation policy. Therefore, the IRC recommends that the Board approve a contract extension to BGI-TAA until the total fund asset allocation is presented and approved by the Board.

Motion: Dr. Meredith moved to extend the current contract with Barclays Global Investors (BGI) for investment management services for the Domestic Tactical Asset Allocation mandate for a standard one-year period from July 1, 2003 to June 30, 2004. This contract may be terminated consistent with Board directives related to proposed changes in the mandate.

Mr. Zeman seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, and 4 excused, the motion was approved.

12. Director's Report

Mr. Paul Matson, Director, stated the ASRS total fund portfolio is up to \$19 billion. The total fiscal year-to-date fund rate of return is estimated to be approximately 4%. Mr. Matson added that the ASRS is about half-way to the actuarial rate of return of 8%.

Additionally, Mr. Matson pointed out that there are a number of delinquent employers listed in the Director's Report. However, two of these employers, Ecotech Agricultural Charter School and Khalsa Charter School, are no longer in delinquent status.

Mr. Matson further highlighted the Audit Plan for fiscal year 2004/05. He added that there are a number of hours that have been allocated for special audits for the Board or Director should the need arise.

Finally, Mr. Matson touched on the Governance Study. He stated that Mercer Investment Consultant's have completed interviews with members of the Board and ASRS staff. Mercer is currently working on finalizing a questionnaire to be answered by external entities, both private and public. They are moving ahead expeditiously.

13. Board Requests for Agenda Items

None.

14. Call to the Public

Mr. Alan Silverburg addressed the Board regarding service credit. Mr. Silverburg inquired what controls the ASRS has in place to ensure the service credit numbers are accurate. Mr. Anthony Guarino, Deputy Director, Chief Operations Officer, stated service purchase audits are conducted when a member initiates a service transaction of any kind. Additionally, random samplings of audits are also conducted.

Mr. Silverburg also commented on long-term care health insurance. He inquired as to whether the Board has considered this type of insurance for the ASRS members. Dr. Essigs suggested that Mr. Silverburg bring this topic to the next Health Insurance/Long Term Disability Committee meeting. Ms. Borchert added that the subject of long term care health insurance has been briefly discussed by the committee.

15. The next ASRS Board meeting is scheduled for Friday, July 18, 2003, at 8:30 a.m. in the 10th Floor Board Room of the ASRS Offices at 3300 N. Central Avenue, Phoenix, AZ 85012

16. Adjournment of the ASRS Board.

Dr. Chuck Essigs, Acting Chairman, adjourned the June 20, 2003, meeting of the ASRS Board at 9:34 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Marina Chaves, Secretary

Date

Paul Matson, Director

Date